REMARKS OF

HENRY A. WAXMAN,

CHAIRMAN,

SUBCOMMITTEE ON HEALTH AND THE ENVIRONMENT

BEFORE

THE COUNCIL OF STATE HOSPITAL FINANCE AUTHORITIES

JUNE 3, 1982

I AM PLEASED TO BE ABLE TO JOIN YOU TODAY.

THIS MEETING IS A VERY TIMELY ONE. We've JUST FINISHED LONG SESSIONS ON THE HOUSE FLOOR COPING WITH ~~THREE~~ seven BUDGETS WITH as much as SIXTY-EIGHT AMENDMENTS TO EACH, AND I CAN SAY THAT THE QUESTIONS OF HOSPITAL COSTS, HEALTH INSURANCE AND HEALTH CARE ARE PERHAPS THE CENTRAL POINT FOR THE ENTIRE CONGRESSIONAL DEBATE. AS THE ISSUE OF SOCIAL SECURITY RULED THE SENATE, THE ISSUES OF HEALTH INSURANCE HAVE AND WILL CONTINUE TO ~~RULE~~ dominate THE DECISIONS OF MANY MEMBERS OF THE HOUSE.

BEFORE I GET INTO THE SPECIFICS OF MY CONCERNS ABOUT CAPITAL POLICIES, LET ME TRY TO GIVE YOU AN IDEA OF THESE BUDGET DELIBERATIONS AS THEY ARE FITFULLY PROCEEDING. LAST WEEK THERE WERE THREE FULL-FLEDGED PROPOSALS given a real chance to pass AS TO HOW TO RUN THE TAX, MILITARY, AND DOMESTIC PROGRAMS OF THE ENTIRE FEDERAL GOVERNMENT:

* THE PROPOSAL BY CONGRESSMAN JONES, THE CHAIRMAN OF THE HOUSE BUDGET COMMITTEE, MADE CUTS OF $12.7 BILLION IN HEALTH PROGRAMS OVER THREE YEAR.

* THE PROPOSAL OF CONGRESSMAN ASPIN CUT $11.8 BILLION FROM THE PROGRAMS OVER THE SAME PERIOD.

* AND THE REAGAN-BACKED PROPOSAL OF CONGRESSMAN LATTA CUT AN UNBELIEVABLE $27.5 BILLION.

MOST OF THESE CUTS WERE TO HAVE COME OUT OF THE MEDICARE PROGRAM.

TO THOSE OF US WHO HAVE BEEN IN THE CONGRESS FOR SOME YEARS, MUCH OF THE DISCUSSION OF THE MEDICARE PROGRAM provided a strange reversal of rhetoric. ~~WAS MADE UP OF THE SAME ARGUMENTS FROM DIFFERENT PEOPLE.~~ TWO YEARS AFTER PRESIDENT CARTER'S BILL, SUDDENLY CONSERVATIVE REPUBLICANS BEGAN TO SAY THAT HEALTH CARE COSTS WERE OUT OF CONTROL and that. ~~THE RANKING REPUBLICAN ON THE BUDGET COMMITTEE ANNOUNCED THAT THE REAGAN ADMINISTRATION WILL~~ They would PROPOSE HOSPITAL-COST CONTAINMENT AS PART OF ITS NEW BUDGET.

the Ranking Rep. on Budget

~~HE~~ SAID, AND I QUOTE, "WHAT DO WE PROPOSE? THE ADMINISTRATION HAS PROPOSED HOSPITAL COST CONTAINMENT.... THESE MEDICARE COSTS HAVE GONE OUT OF SIGHT, AND THEY HAVE TAKEN COSTS TO OTHERS USING HOSPITALS WITH THEM.... IS THERE ANYTHING WRONG WITH TRYING TO GET A HANDLE ON THESE SKY-ROCKETING COSTS? I DO NOT THINK SO."

HE WENT ON TO ASSERT THAT SINCE ONLY PROVIDERS WERE RESPONSIBLE FOR INCREASES IN HOSPITAL COSTS, ONLY PROVIDERS WOULD FEEL THE $23-BILLION REDUCTION IN THE MEDICARE PROGRAM.

THE IRONIES OF SUCH A DEBATE WERE OFTEN CONFUSING.

BUT IT DID BECOME CLEAR THAT THE ADMINISTRATION AND THE CONGRESSIONAL REPUBLICANS WERE PROPOSING THAT HEALTH CARE BE CUT BACK AND RATIONED ON THE BASIS OF AGE. THE PROPOSAL WOULD INCLUDE COST CONTAINMENT ONLY FOR MEDICARE BENEFICIARIES, AND THE REST OF THE COUNTRY COULD CONTINUE ON ITS OWN OVERBEDDED, UNDERUTILIZED WAY.

NEAR THE END OF THE DEBATE, HOWEVER, IT BECAME CLEAR THAT THE REPUBLICANS HAD MADE A SERIOUS--AND FINALLY FATAL--MISTAKE IN PUTTING TOGETHER THEIR BUDGET. MORE AND MORE OF THE MODERATES OF BOTH PARTIES HAD REALIZED THAT THE LATTA SLASHES WERE UNREALISTIC AND THAT SUCH "SAVINGS" COULD BE ACHIEVED ONLY BY SHIFTING COSTS TO BENEFICIARIES AND BY ARBITRARILY REDUCING PROVIDER PAYMENT RATES.

AS REPUBLICANS MEMBERS CAME TO UNDERSTAND THIS, THE REPUBLICAN LEADERSHIP BECOME INTERESTED IN AN AMENDMENT I HAD PROPOSED TO RESTORE SOME OF THEIR OWN ILL-CONCEIVED MEDICARE CUTS. (I WOULD NOTE THAT NONE OF THE REPUBLICANS HAD DRAFTED ANY AMENDMENTS TO RESTORE ANY OF THESE CUTS. MY AMENDMENT WAS ONE OF THE FEW THAT WOULD HAVE BEEN ALLOWED FOR CONSIDERATION IN THE DEBATE.)

I WAS CONVINCED THAT MY AMENDMENT HAD THE BACKING OF A MAJORITY OF THE HOUSE AND THAT IF IT WERE ADDED TO THE LATTA BUDGET, THAT THAT ENTIRE BUDGET WOULD PASS. AND IT WAS CLEAR TO ME THAT, WITHOUT A RESTORATION OF MOST OF THE MEDICARE CUTS, THE REPUBLICANS WOULD NOT FIND THE NECESSARY VOTES WITHIN THEIR OWN RANKS TO PASS THEIR ANTI-ELDERLY BUDGET.

BUT I DID NOT BELIEVE THAT THE WAY TO DEFEND MEDICARE WAS TO FUEL THE PASSAGE OF THE LATTA BUDGET. WE CANNOT SAVE PEOPLE'S HEALTH AT THE EXPENSE OF THEIR FOOD, THEIR HOUSING, AND THEIR ENVIRONMENTS.

I THEREFORE DECIDED TO WITHDRAW MY AMENDMENTS. ANOTHER AMENDMENT WAS EVENTUALLY OFFERED. BUT WHILE IT RESTORED ALL MEDICARE FUNDING FOR '83, IT LEFT $18.5 BILLION OF CUTS IN THE PROGRAM IN 84 AND 85 INTACT. It took that money specifically from defense. ~~[illegible]~~ and this, when it passed it practically struck all the alternatives.

THE RESULT OF ALL OF THESE LATE-NIGHT SESSIONS IS, OF COURSE, FAMILIAR TO YOU. ALL THREE BUDGETS WERE REJECTED. EVERYONE IN THE HOUSE HAS GONE BACK TO THE DRAWING BOARD. AND I HOPE THAT ALL CONCERNED WILL THIS TIME REGARD HEALTH CARE AS THE NON-PARTISAN, NATIONAL ISSUE THAT IT ONCE WAS AND SHOULD BE AGAIN.

BUT I AM NOT CONFIDENT OF THIS.

BY DESCRIBING THE SPECIAL NATURE OF THE MEDICARE DEBATE IN THE HOUSE, I DO NOT MEAN TO LEAD YOU TO THINK THE ISSUES OF HEALTH CARE WILL ALWAYS ENJOY SUCH A CHARMED EXISTENCE. WHEN NEW BUDGETS EMERGE THEY MUST CONTAIN HEALTH INSURANCE AND TAX PROVISIONS.

I VEHEMENTLY DISAGREE WITH THE REAGAN ADMINISTRATION WHEN IT SUGGESTS THAT THE WAY TO CONTROL ~~FEDERAL~~ HEALTH COSTS IS BY LIMITING COVERAGE OF THE POOR AND THE ELDERLY.

BUT I MUST REPEAT TO YOU THE POINT THAT I HAVE ARGUED BEFORE THIS ADMINISTRATION EVEN ACKNOWLEDGED THERE WAS A PROBLEM: HEALTH CARE COSTS ARE GROWING TOO MUCH AND TOO QUICKLY. NO PART OF SOCIETY--PUBLIC OR PRIVATE--CAN LONG CONTINUE TO SUPPORT INFLATION RATES THAT APPROACH 20 PERCENT.

CAPITAL FINANCING DOES, OF COURSE, PLAY A DIRECT ROLE IN THIS PROBLEM. IT MAY ALSO BE A PART OF PROPOSED BUDGET SOLUTIONS.

AS CHAIRMAN OF THE SUBCOMMITTEE ON HEALTH AND THE ENVIRONMENT, I DO NOT USUALLY CONCERN MYSELF WITH THE ISSUES OF TAX AND CAPITAL DIRECTLY. BUT I AM CONCERNED THAT HEALTH CARE BE AVAILABLE TO ALL AMERICANS, REGARDLESS OF THEIR ABILITY TO PAY OR OF THE STATE IN WHICH THEY HAPPEN TO FALL SICK.

as you know, the admin. proposals are soon to be marked-up in W+M.

IN ORDER TO REACH THAT GOAL, I MUST BE CONCERNED ABOUT HEALTH FINANCE. WHEN HOSPITAL INFLATION SHOOTS UP AT A RATE TWICE THAT OF THE CONSUMER INDEX, CURRENT PROGRAMS ABSORB ALL POSSIBLE FUNDS. AS A RESULT, ANY IMPROVEMENTS IN PUBLIC CARE OR COVERAGE ARE STOPPED BEFORE THEY CAN START: THE CHILD HEALTH ASSURANCE PROGRAM, FOR EXAMPLE--PROBABLY A $2 BILLION PROGRAM, AT MOST, TO IMPROVE THE HEALTH OF CHILDREN ALL ACROSS THE ENTIRE NATION--WAS DEFEATED BECAUSE OF ITS COSTS. MANY OF THE MEDICARE/MEDICAID IMPROVEMENTS PROPOSED IN THE LAST YEAR OF THE CARTER ADMINISTRATION WERE LIKEWISE PUT ASIDE.

INDEED, AS LAST YEAR'S BUDGET RECONCILIATION BILL AND THIS YEAR'S ATTEMPTS AT A BUDGET HAVE SHOWN, INFLATING COSTS IN HEALTH WILL LEAD DIRECTLY TO THE REDUCTION OF EXISTING BENEFITS AND ELIGIBILITY.

WITHIN SUCH A ZERO-SUM GAME, EVERYONE MUST BE INTERESTED IN EVERY EXPENSE. THE FEDERAL BUDGET PROCESS FORCES HEALTH PROGRAMS TO COMPETE WITH ALL OTHER USES FOR LIMITED DOLLARS; WITHIN THE HEALTH FUNCTION, DISCRETIONARY PROGRAMS MUST COMPETE WITH ENTITLEMENT SPENDING:

> INEFFICIENCIES IN BOND SUBSIDIES ARE QUICKLY TRANSLATED INTO FEWER POLIO SHOTS.
>
> OVERBEDDED HOSPITALS MEAN WE CANNOT AFFORD TO TRAIN NURSES.
>
> AND ACCORDING TO THE ESTIMATES OF THE CONGRESSIONAL BUDGET OFFICE, EVERY ONE-PERCENT INCREASE IN HOSPITAL INFLATION COSTS THE FEDERAL GOVERNMENT $350 MILLION--AS MUCH AS THE ENTIRE MATERNAL AND CHILD HEALTH PROGRAM.

THE QUESTION FOR ALL OF US HERE TODAY THEN BECOMES THE ROLE OF CAPITAL IN INCREASING COSTS. IT IS CLEAR THAT THE MEDICARE SYSTEM OF COST-PLUS REIMBURSEMENT PROVIDES FULL FINANCIAL SUPPORT FOR THE CREATION AND OPERATION OF UNNEEDED FACILITIES, EQUIPMENT, AND SERVICES.

AND IT IS EQUALLY CLEAR THAT EXCESS CAPITAL WILL CREATE NEW COSTS FOR THE SYSTEM, AT A RATE OF ALMOST THREE HUNDRED MILLION DOLLARS IN ANNUAL OPERATING COSTS FOR EVERY BILLION SPENT FOR CAPITAL. AS ONE EXAMPLE OF THE COST IMPLICATIONS OF CAPITAL PROJECTS, THE CBO ESTIMATES THAT EVERY 10% INCREASE IN BEDS BRINGS ABOUT A 4% INCREASE IN ANNUAL COSTS.

OVER THE PAST SEVERAL YEARS, THE HOSPITAL INDUSTRY HAS BEEN RESTRAINED IN ITS CONSTRUCTION AND CAPITAL OUTLAYS. AFTER FIFTEEN YEARS OF STEADY INCREASE, THE NUMBER OF BEDS PER CAPITA HAS STABILIZED AND EVEN FRACTIONALLY DECREASED. CAPITAL EXPENDITURES HAVE--IN REAL DOLLARS--DECLINED FROM THEIR RECORD LEVELS IN 1972 AND 1976.

BOTH OF THESE RESULTS ARISE FROM A MULTITUDE OF FACTORS, INCLUDING THE DIFFICULTIES OF FINANCIAL MARKETS AS WELL AS PROVIDER AND CONSUMER CONCERN OVER THE PROBLEM.

MUCH OF THIS SLOWDOWN IN CAPITAL OUTLAY CAN ALSO BE ATTRIBUTED TO CONGRESSIONAL CONCERN WITH HEALTH COSTS OVER THE PAST DECADE. THIS ACTIVE CONCERN BEGAN WITH THE ADOPTION OF SECTION 1122 AS A PROVISION OF THE MEDICARE AND MEDICAID AMENDMENTS OF 1972 AND GREW INTO THE HEALTH PLANNING ACT IN 1974. I ALSO BELIEVE THAT THE SERIOUS DISCUSSION OF CAPITAL CONTROLS DURING THE HOSPITAL COST CONTAINMENT DEBATES DID MUCH TO SLOW THE ACCELERATION OF SPENDING.

BUT THE REAGAN ADMINISTRATION IS CREATING A NEW ENVIRONMENT FOR PURCHASES AND CONSTRUCTION PROJECTS. THE ~~REPUBLICANS HAVE~~ admin has CONTINUED TO PROPOSE THE ABOLITION OF THE HEALTH PLANNING SYSTEM--EVEN TO THE POINT OF LIMITING STATES' ABILITY TO SET UP THEIR OWN SYSTEMS OF REVIEW. THIS IS A CLEAR STATEMENT THAT THE NATION SHOULD NO LONGER BE CONCERNED ABOUT EXCESS BEDS AND SERVICES.

IN FACT, SOME OF THE ADMINISTRATION'S RHETORIC ABOUT COMPETITION SUGGESTS THAT FREE-WHEELING EXPANSION IS PREFERRED, AND THAT WHATEVER LEFTOVER BEDS THERE MAY BE ARE SIMPLY THE BYPRODUCT OF THE MARKET (ALTHOUGH UNLIKE A TRUE MARKET, THERE IS A SAFETY NET OF INSURERS AND CONSUMERS TO CUSHION THOSE COMPETITORS WHO ARE OVERBUILT AND UNDERUSED).

THE ADMINISTRATION'S STATEMENT HAS NOT GONE UNNOTICED. HEARING THIS INVITATION TO EXPAND AND TO MAKE "HIGH-TECH" PURCHASES, THE HOSPITAL INDUSTRY HAS RESPONDED LIKE A TEENAGER BORROWING QUARTERS IN FRONT OF A PAC MAN MACHINE.

TESTIFYING BEFORE MY SUBCOMMITTEE ONLY A MONTH AGO, THE WASHINGTON BUSINESS GROUP ON HEALTH WARNED THAT WE ARE ALREADY BEGINNING TO SEE A "BUILDING BOOM OF UNPRECEDENTED PROPORTIONS."

SIMILARLY, REPRESENTATIVES FROM THE COMMERCIAL HEALTH INSURERS STATED THE NATION HAD "GREAT REASONS TO FEAR UNRESTRAINED CAPITAL EXPANSION" AND SUMMARIZED A SURVEY WHICH REVEALED "ALARMING INCREASES" IN PROPOSED HOSPITAL CAPITAL PROJECTS.

FINALLY, WITNESSES FROM THE STATES PRESENTED DETAILED EVIDENCE OF AN "EXPLOSION OF CAPITAL EXPANSION" BY THE HOSPITALS AND NURSING HOMES IN TWENTY STATES.

I DO NOT MEAN TO SUGGEST THAT I THINK THAT ALL RENOVATION AND CONSTRUCTION PROJECTS ARE BAD. CLEARLY, NO ONE WOULD ARGUE THAT THE HOSPITALS SHOULD JOIN THOSE OTHER AMERICAN INDUSTRIES THAT HAVE ALLOWED THEIR PLANTS AND SYSTEMS TO DETERIORATE BELOW PRODUCTIVE LEVELS. AND THERE ARE CERTAINLY SOME AREAS STILL IN GREAT NEED OF INCREASED CAPACITY.

BUT I DO MEAN TO SAY THAT THE BUILDING BOOM THAT IS UPON US NOW DOES NOT RESPOND TO EITHER OF THESE PROBLEMS. INDEED, TO THE EXTENT THAT THIS UNPLANNED CONSTRUCTION DRAINS ALL CAPITAL AWAY TO BLUE CHIP HOSPITALS, IT MAKES WORSE THE NEED FOR RENOVATION AND EXPANSION OF OTHER COMMUNITY FACILITIES.

I WOULD ALSO ARGUE THAT THERE IS NO EVIDENCE THAT A BOOM OF THIS SIZE IS NECESSARY, MUCH LESS DESIRABLE.

> RESEARCHERS AT JOHNS HOPKINS REPORT THAT THE AVERAGE AGE OF HOSPITAL PLANT IN THE U.S. IS NOW ONLY SIX YEARS, COMPARED WITH A TWELVE-YEAR AVERAGE FOR PLANT IN OTHER SERVICE INDUSTRIES AND A 23-YEAR AVERAGE FOR MANUFACTURING INDUSTRIES.
>
> MOST HEALTH MAINTENANCE ORGANIZATIONS OPERATE ON THE BASIS OF TWO BEDS PER THOUSAND POPULATION. THE NATIONWIDE AVERAGE IS ALREADY FOUR AND A HALF BEDS PER THOUSAND.

HEALTH PLANNING HAS CERTAINLY NOT BEEN A COMPLETE SUCCESS. THE COST-PLUS REIMBURSEMENT SYSTEM HAS OFTEN PROVIDED CONTRADICTORY INCENTIVES.

BUT PLANNING HAS BEEN SOME HELP IN SLOWING GROWTH.

UNFORTUNATELY, THE ADMINISTRATION AND THIS CONGRESS HAVE CONCLUDED--I THINK MISTAKENLY--THAT THE SYSTEM IS NO LONGER NEEDED. THIS YEAR THERE HAS BEEN A 50% CUT IN FUNDS APPROPRIATED BY THE CONGRESS FOR THE PROGRAM.

NEXT YEAR THE SYSTEM WILL BE EVEN MORE RADICALLY REDUCED, IF IT IS RENEWED AT ALL.

THE HOUSE PLANNING PROPOSALS NOW CONTAIN STRICT LIMITATIONS ON LOCAL PLANNING ACTIVITIES AND SHARP INCREASES IN THE THRESHOLDS FOR CERTIFICATE OF NEED REVIEW.

THE SENATE HAS PROPOSED NO RENEWAL LEGISLATION AT ALL. UNLESS THE CONGRESS ACTS SOON, THE PROGRAM WILL EXPIRE.

WITHOUT AN EFFECTIVE PLANNING SYSTEM, WE WILL NEED OTHER MEANS TO CONTROL CAPITAL OUTLAYS. EVEN IF THE REAGAN ADMINISTRATION HAS DETERMINED THAT NO ONE SHOULD CARE ABOUT PLANNING FOR UNDERSERVED AREAS OR FOR ACCESS TO CARE, WE CANNOT AS A NATION AFFORD THE EXPLOSIVE EXPANSION THAT HAS BEEN PREDICTED.

ONE PROPOSAL FAMILIAR TO YOU HAS BEEN THE LIMITATION OF THE USE OF TAX-EXEMPT FINANCING. THE ADMINISTRATION HAS MADE SEVERAL SUGGESTIONS ABOUT CURTAILING THESE TAX-EXPENDITURES. THE FUTURE OF THESE SUGGESTIONS IS UNCLEAR, BUT THERE IS INTEREST IN THE CONGRESS.

THERE ARE TWO RESTRICTIONS THAT would apply ~~SEEM MOST RELEVANT~~ TO HOSPITAL EXPANSION. THE FIRST IS A REQUIREMENT THAT AN ELECTED OFFICIAL APPROVE TAX-EXEMPT FINANCING. THE SECOND IS A REQUIREMENT THAT THE ISSUING GOVERNMENT CONTRIBUTE TO THE PROJECT.

IT IS MY UNDERSTANDING THAT BOTH OF THESE PROPOSALS ARE MAINLY INTENDED FOR THE LIMITATION OF PRIVATE PURPOSE BONDS. ~~BUT I THINK THAT EACH HAS A POTENTIAL FOR HELPING TO CONTROL HOSPITAL~~ ~~[illegible]~~.

I AGREE WITH YOUR COUNCIL'S ARGUMENT THAT SUCH RESTRICTIONS ARE TO ENSURE THAT TAX-EXEMPT FINANCING SERVES A TRUE PUBLIC PURPOSE.

BUT I MUST REMIND YOU THAT YOUR TESTIMONY BEFORE THE CONGRESS HAS DEPENDED IN LARGE PART ON THE EXISTENCE OF THE HEALTH PLANNING PROCESS TO SCREEN OUT INAPPROPRIATE PROJECTS.

~~IF LOCAL AND STATE HEALTH PLANNING IS ELIMINATED, THE "APPROVAL" AND "CONTRIBUTION" REQUIREMENTS SEEM TO ME TO BE A REASONABLE FIRST STEP IN DIRECTING LIMITED FUNDS TO THEIR BEST USES~~. NONE OF US--AS MEDICARE BENEFICIARIES, PRIVATE-PAY PATIENTS, THIRD-PARTY INSUREDS OR SIMPLY AS TAX-PAYERS--CAN AFFORD TO SUBSIDIZE THE BUILDING OF MORE EMPTY BEDS BY EVERYONE WITH A 501(C)(3) STATUS. And this would be the consequence if Local & State Health Planning is eliminated and there is no way to direct limited funds to their best use.

I WOULD, ~~IN FACT, GO FURTHER AND~~ SUGGEST THAT TAX-EXEMPT STATUS SHOULD BE BASED ON A STATE DETERMINATION OF NEED FOR THE PROJECT. SUCH A FINDING IS PERHAPS IMPLICIT IN THE "APPROVAL" REQUIREMENT SUGGESTED BY THE ADMINISTRATION, BUT SUCH APPROVAL SHOULD BE EXPLICITLY BASED ON HEALTH POLICY, NOT SIMPLY MARKET ECONOMICS. WITHOUT SUCH A LIMITATION, TAX-EXEMPT BONDS WILL CONTINUE TO ACT AS AN INEFFICIENT SUBSIDY, DIRECTING OUR LIMITED RESOURCES TO THE LEAST USEFUL TARGETS.

WITHOUT HEALTH PLANNING REVIEW, THE SITUATION MIGHT EVEN GET WORSE, ALLOWING PUBLIC SUBSIDIES ONLY FOR THOSE INSTITUTIONS THAT DON'T NEED THEM. ONE RESEARCHER HAS ALREADY DETERMINED THAT THOSE HOSPITALS THAT SERVE THE MOST PUBLIC PATIENTS ARE THE FACILITIES THAT WILL, IN TURN, HAVE THE LOWEST BOND RATINGS AND THE GREATEST DIFFICULTY RAISING NEW CAPITAL.

I WOULD ALSO SAY THAT WE ~~SHOULD~~ might CONSIDER RESTRICTING THE SUBSIDIES OF TAX-EXEMPT FINANCING TO THOSE FACILITIES THAT MAKE AND MAINTAIN A COMMITMENT TO SERVE MEDICARE, MEDICAID, AND OTHER PUBLIC PATIENTS.

* THE CLOSINGS OF PUBLIC CLINICS HAVE TURNED MANY OUTPATIENTS INTO INPATIENTS.

* RESTRICTIONS ON MEDICAID AND MEDICARE BENEFITS HAVE ALREADY LEFT MANY CITIZENS WITHOUT ADEQUATE COVERAGE.

* HOSPITALS AROUND THE COUNTRY ARE SEEKING TO AVOID THEIR HILL-BURTON OBLIGATIONS.

* THE PLIGHT OF THE PUBLIC GENERAL HOSPITALS HAS BECOME DESPERATE.

IN SUCH A CLIMATE, THE TREASURY CANNOT CONTINUE TO HAND OUT EXEMPTIONS TO FACILITIES WHOSE ONLY CLAIM TO CHARITABLE STATUS IS THAT THEY DO NOT MAKE A PROFIT.

THOSE FACILITIES THAT WOULD BUY MULTIPLE CAT SCANNERS RATHER THAN PROVIDE MATERNITY CARE TO THE POOR MUST ACKNOWLEDGE THAT THE DISTINCTION BETWEEN "PROFIT" AND "NON-PROFIT" HAS BECOME A USELESS LEGAL FICTION.

~~THOSE FACILITIES THAT DO NOT SERVE THE UNINSURED SHOULD NOT BE ALLOWED TO CAPITALIZE ON THE PUBLIC SERVICE OF THOSE THAT DO.~~

OF COURSE, NONE OF THESE LIMITATIONS ON THE USE OF BONDS IS A REAL SOLUTION TO EXPLOSIVE EXPANSION. IN ORDER TO CONTROL THE CREATION OF EMPTY WARDS AND ANCILLARY GHOST TOWNS, WE MUST EVENTUALLY RE-STRUCTURE ALL THIRD-PARTY PAYMENT SYSTEMS.

I HAVE LONG ARGUED FOR PROSPECTIVE RATE-SETTING AS WAY OF CURBING EXCESS CAPACITY. BUT SUCH AN OVERHAUL WILL BE COMPLEX AND EXTENDED. IT CANNOT BE ACCOMPLISHED IN THE THREE-WEEK PERIOD THAT THE REPUBLICAN BUDGET RESOLUTION WOULD HAVE ALLOWED US.

IN THE MEANWHILE, SOME CONTROLS ARE NEEDED. HEALTH PLANNING IS ONE. LIMITATION OF CAPITAL FINANCING MAY BE ANOTHER.

I DO NOT PRETEND TO HAVE A FULL PACKAGE OF TAX AND EXPENDITURE MEASURES FOR A SYSTEM TO GUARANTEE CARE FOR ALL AMERICANS. I WILL BE WORKING ON SUCH ISSUES FOR A LONG TIME TO COME. I WELCOME THE OPPORTUNITY TO WORK WITH YOU AND TO HAVE YOUR VIEWS AND YOUR HELP.

THANK YOU.